

Message Text

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USMISSION OECD PARIS

C O N F I D E N T I A L JIDDA 7441

LIMDIS GREENBACK

E.O. 11652: GDS

TAGS: EFIN, SA

SUBJECT: THE SAUDI FINANCIAL SCENE; SAMA POLICY

SUMMARY: ALTHOUGH THE PAST 12 MONTHS HAVE SEEN SAMA MOVE
TOWARD INVESTMENT IN CORPORATE DEBT AND EQUITY IN THE U.S.
(MANAGED BY U.S. FINANCIAL INSTITUTIONS), ITS BASIC APPROACH
REMAINS HIGHLY CAUTIOUS AND CONSERVATIVE. DIRECT PLACEMENTS

ARE LIMITED TO GOVERNMENT AGENCIES OR GOVERNMENT
GUARANTEED FIRMS, AND SAMA FROWNS HEAVILY ON PRIVATE
PLACEMENTS DENOMINATED IN SAUDI RIYALS. CAMPAIGN TO
SAUDIFY FOREIGN BANKS CONTINUES, AND BAN ON NEW FOREIGN
COMMERCIAL BANKS OR FOREIGN PARTNERS CONTINUES, BUT ONE
INVESTMENT BANK WITH FOREIGN PARTICIPATION AND MANAGEMENT
IS LIKELY TO BE LICENSED. END SUMMARY

1. SAMA HAS EXPANDED THE NUMBER OF U.S. BANKS HANDLING INVESTMENT
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PORTFOLIOS TO SIX, AND HAS ALSO INCREASED THE NUMBER OF

BANKS HANDLING DEPOSITS. INVESTMENTS IN CORPORATE EQUITY AND DEBT ARE LARGELY CONDUCTED BY U.S. FINANCIAL INTERMEDIARIES. THE SIX FIRMS HANDLING LARGE AMOUNTS ARE: MORGAN, FIRST NATIONAL CITY, BANK OF AMERICA, HARRIS BANK, MANUFACTURERS HANOVER AND T. ROWE PRICE. FIRST THREE NAMES WILL HARDLY SURPRISE ANYONE, BUT EMBASSY WAS SUPRISED TO LEARN OF PRICE, DESCRIBED BY SAMA GOV. QURAISHI AS A BALTIMORE BROKERAGE HOUSE. EMBASSY ESTIMATES TOTAL EQUITY AND CORPORATE DEBT HANDLED BY U.S. BANKS AT MORE THAN \$1 BILLION. WE DO NOT YET HAVE THE LIST OF APPROVED DEPOSITORY BANKS. (NOTE: LIST OF SOX FIRMS ABOVE IS HIGHLY SENSITIVE AND SHOULD BE HANDLED WITH UTMOST CAUTION.)

2. SAMA REMAINS OPPOSED TO DIRECT PLACEMENT OF SAG MONEY IN EQUITY OF U.S. FIRMS. ONE VERY LIKELY PROSPECT FOR DIRECT INVESTMENT IN A RESEARCH FIRM IN THE ENERGY FIELD APPEARS TO BE DEAD. UNTIL SECTION 892 OF THE IRS REGULATIONS IS CLARIFIED, SAMA IS AFRAID THAT ONE ACTIVE INVESTMENT MIGHT MAKE IT LIABLE FOR WITHHOLDING TAXES ON ALL OF ITS INVESTMENTS NOW CLASSIFIED AS PASSIVE.

3. PRIMARY ANALYSIS OF SAMA INVESTMENTS AND MONEY MANAGEMENT CONTINUES TO BE THE RESPONSIBILITY OF THE SO-CALLED INVESTMENT ADVISORY BOARD, ACTUALLY JUST THE GROUP OF WHITE, WELD AND CO. AND BARINGS BROS. NATURALLY FINAL DECISION AND POLICY DIRECTIVES ARE MADE BY GOV. QURAISHI IN CLOSEST COOPERATION WITH MINFINANCE ABA AL-KHAYL AND CROWN PRINCE FAHD. WE ARE DOUBTFUL THAT OTHER FIGURES PLAY A REALLY DOMINANT ROLE IN DECISION MAKING, ALTHOUGH WE KNOW THAT HISHAM NAZER (MINPLANNING) AND AHMED ZAKI YAMANI (MINPET) ARE CONSULTED REGULARLY. IT APPEARS THAT THE FOREIGN ADVISORS ARE DOING A CREDITABLE, COMPETENT JOB OF PLACING SAMA FUNDS. THEY ARE NOT RPT NOT DEVELOPING EXPERTISE WITHIN SAMA TO TAKE OVER WHEN THEY LEAVE. ALTHOUGH EMBASSY ORIGINALLY HEARD SCATTERED MEMBLINGS AGAINST THE NEED TO REVEAL CLIENT/COMPANY RELATIONSHIPS TO COMPETITORS, IT NOW SEEMS THAT MOST FINANCIAL FIRMS ARE AWARE THAT RATIONAL MANAGEMENT, AS ENCOURAGED BY THE FOREIGN ADVISORS, HAS RESULTED IN MORE CONFIDENTIAL

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BUSINESS TO EVERYONE CONCERNED. THE IMPORTANT FACTOR IS THAT, ALTHOUGH THE ADVISORS HAVE PERFORMED WELL, THEY HAVE NOT NOTICEABLY LIBERALIZED SAUDI INVESTMENT THINKING. MOVEMENT HAS BEEN MADE AWAY FROM SHORT-TERM ASSETS, AND THE STEP TOWARD CORPORATE EQUITIES, AND BONDS IS PROMISING, BUT THE BASIC APPROACH REMAINS ONE OF EXTREME CAUTION. THE SAMA APPROACH SHOULD BE REASSURING TO ALL CENTRAL BANKERS.

4. SAMA IS ALSO DETERMINED TO MAKE ANY AND ALL RIYAL PLACEMENTS ITSELF. RECENT PRIVATE LOANS DENOMINATED IN SAUDI RIYALS TO MOROCCO AND SPAIN WILL NOT REPEAT NOT BE REPEATED. SAMA IS DETERMINED THAT THE RIYAL NOT BECOME AN INTERNATIONAL CURRENCY. THIS DECISION WILL AFFECT PRIVATE PLACEMENTS NOW IN THE PLANNING STAGE (WE ARE AWARE OF ONE SR 100 MILLION LOAN PLANNED FOR ICELAND AND ANOTHER TO AN UNNAMED MOSLEM, NON-ARAB COUNTRY). THIS ACTION WILL ALSO NIP IN THE BUD THE INCREASED INTERNATIONAL ACITIVITY OF NATIONAL COMMERCIAL BANK. NCB. HAD BEGUN, THROUGH ITS ASSOCIATION WITH FIRST BOSTON CORPORATION, TO ACTUALLY CO-MANAGE ISSUES. NCB HAD ALSO MANAGED TO PEDDLE SR 30 MILLION OF BOTH THE SPANISH AND THE MOROCCAN PAPER TO ITS DEPOSITORS. THIS ATTRACTIVE CHANNEL, WHICH COULD HAVE SIPHONED OFF MUCH OF THE MONEY NOWW GOING INTO LAND SPECULATION, APPEARS CLOSED FOR THE TIME BEING. (THE HIGH-GRADE, GOVERNMENT GUARANTEED PAPER WHICH NCB CHOSE WAS VERY ATTRACTIVE TO LOCAL FAMILIES).

5. SAMA CONTINUES ITS POLICY OF DIRECT PLACEMENTS TO QUASI-GOVERNMENT AGENCIES AT MARKET RATES OF INTEREST WHERE EXCHANGE RATE RISK IS MINIMAL. WE UNDERSTAND A LOAN IS CURRENTLY BEING DISCUSSED WITH THE GERMAN BUNDESBANK. THE PLACEMENT WOULD BE FOR \$50 MILLION, (DENOMINATED IN DEUTSCHE MARKS, AT 8 AND 3/4 PERCENT INTEREST). WE KNOW OF NO NEW PLACEMENTS UNDER WAY FOR THE U.S. MARKETS. SAMA CONTINUES TO BE RESPONSIVE TO IMF THROUGH LOANS IN CONNECTION WITH THE IMF OIL FACILITY. AS WASHINGTON IS AWARE, AN AMOUNT OF SDR 250 MILLION WAS EXTENDED TO THE IMF ON OCTOBER 22 AND SDR 1 BILLION WAS AUTHORIZED ON JULY 7.

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6. GOV. QURAISHI HAS LEFT NO DOUBT IN DISCUSSIONS WITH THE AMBASSADOR THAT HE INTENDS TO SEE A MAJORITY OF THE OWNERSHIP OF ALL BANKS IN THE HANDS OF SAUDIS. THE BANK OF PAKISTAN HAS ALREADY MADE THE STEP (THE NEW AL JAZIRA BANK), AND THE ALGEMENE BANK NEDERLANDS AND THE BANK DU CAIRE WILL FOLLOW AS SOON AS FORMAL APPROVAL IS RECEIVED FROM THE COUNCIL OF MINISTERS. SAMA IS NOT WILLING TO SEE U.S. OR OTHER FOREIGN BANKS BUY INTO THE BANKS WHICH SELL OFF EQUITY TO SAUDIS. IT IS ONLY MARGINALLY INTERESTED IN SEEING U.S. BANKS COME IN UNDER MANAGEMENT CONTRACTS WHICH MIGHT IMPROVE THE GENERALLY WOEFUL STATE OF THE FOREIGN BANKS HERE. THERE IS NO CHANCE WHATSOEVER AT LEAST FOR THE TIME BEING, THAT A FOREIGN BANK WILL BE ALLOWED TO CREATE A NEW JOINT VENTURE IN COMMERCIAL

BANKING. WE DO EXPECT TO SEE THE SAUDI INVESTMENT BANKING CORPORATION LIMITED RECEIVE ITS LICENSE IN THE NEXT MONTH (PARTIALLY OWNED AND COMPLETELY MANAGED BY CHASE). ACCORDING TO THE GOVERNOR, NO OTHER INVESTMENT BANKING PROPOSALS ARE NOW BEING CONSIDERED.
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